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Burkina Faso: Letter of Intent, Memorandum of Economic Financial Policies, and Technical Memorandum of Understanding

May 26, 2016

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Letter of Intent

MINISTRY OF ECONOMY,
FINANCE AND DEVELOPMENT

GENERAL SECRETARIAT

DIRECTORATE GENERAL
OF COOPERATION

Ouagadougou, May 26, 2016

N°2016_____/MINEFID/SG/DGCOOP

From: The Minister of Economy, Finance and Development

To: Madame Christine Lagarde
Managing Director
International Monetary Fund
700 19th Street, NW
Washington, DC 20431 (USA)

Madame Managing Director:

The government elected following the presidential and parliamentary elections of November 29, 2015, has continued to implement the measures established in its 2013–2016 three-year economic program supported under the Extended Credit Facility (ECF) of the International Monetary Fund (IMF). The government reaffirms its determination to continue implementing sound economic and financial policies, to combat poverty, and to foster conditions conducive to inclusive growth, in accordance with the political agenda of the elected Head of State.

The government will continue the efforts undertaken by the transition authorities towards consolidating public finances and improving governance. However, it also intends to implement a National Economic and Social Development Plan (*Plan National de Développement Économique et Social* – PNDES), the new development and inclusive growth policy. In 2016, the program will be implemented amid persistently difficult conditions, marked by relatively weak cotton and gold prices. Although the "wait-and-see" attitude demonstrated in relation to the political transition in 2015 is no longer present today, the security situation has deteriorated following the attacks on January 15, 2016, and appears to have dampened the keenly anticipated rebound in the private sector. Moreover, the country's politically turbulent period in 2014 and 2015 contributed to slower economic growth compared to historical trends, as well as to a decline in the tax revenue collection rate relative to GDP, dropping from 16.5 percent in 2013 to 14.3 percent in 2015. At the same time, current expenditure rose from 13.6 percent of GDP in 2013 to 14.2 percent in 2015, largely due to a higher wage bill amid social pressures. Public investment suffered as a result of the combined effects of these two trends, dropping by half during the same period (from 14.2 percent of GDP in 2013 to 7.7 percent in 2015).

The 2016 supplementary budget law (*loi de finances rectificative* – LFR) aims to expand fiscal space for the government's priority investments and social expenditures. Revenue is expected to increase by 1.8 percentage points of GDP compared to 2015 through tax rate hikes on certain products (tobacco, alcohol, and stamp duty), modernization of the tax and customs administrations, and strengthening of controls and efforts to combat fraud. With respect to expenditure, the new budget allocations that the government wishes to see in 2016 are essentially meant to support the health, education, and security sectors, while maintaining the necessary space for investment.

Furthermore, low international oil prices are an opportunity that the government intends to seize to firm up the financial footing of the energy sector, particularly the electricity sub-sector. This should enable effective management of new investments in the sector, quickly improve electricity supply, and boost private sector development. The reforms currently under way are aimed at (i) clearing a large part of the payment arrears owed by national electricity utility SONABEL to national oil company SONABHY by way of payment of a special dividend from SONABHY to the government; (ii) clarifying and simplifying the financial relationships between the government, SONABHY, and SONABEL through the application of a new, more flexible oil purchase price structure by SONABEL; and (iii) improved monitoring of the financial position of both SONABHY and SONABEL, a situation that is also expected to benefit from the resolute implementation of recommendations arising from the audits performed in 2014.

The appended Memorandum of Economic and Financial Policies (MEFP) describes the prevailing economic and financial situation in 2015, outlines the economic and financial policies that the government intends to implement in 2016, and establishes the benchmarks and reforms for the rest of 2016. It also explains the country's balance of payments financing needs.

Despite the unfavorable political and security context, performance under the ECF-supported program has remained satisfactory. All the quantitative performance criteria were met, including the net domestic financing ceiling, non-concessional external loans, and non-accumulation of external arrears. With respect to indicative targets, the government deficit has remained below the ceiling set at end-June 2015, and all the other benchmarks have been met, aside from the government revenue floor.

With respect to structural benchmarks, 7 out of the 11 benchmarks for 2015 were completed, and most of those remaining are underway. In particular, the benchmark (standardized invoicing) to be met by the Directorate General of Taxation (*Direction Générale des Impôts* – DGI) will be achieved before end-June, for both large and medium-sized enterprises. The benchmark on "leakages" during hydrocarbon transport, to be achieved by SONABHY, was replaced by a technical measure for securing loads. Lastly, out of the five additional benchmarks planned between January and March 2016, one was completed (creation of an investigations and tax research directorate within the Directorate General of Taxation), while four are underway.

In light of these commitments, we request that the IMF conclude the fourth and fifth reviews under the ECF arrangement. To this end, we request disbursements in the amount of SDR 14.10 million and SDR 4.47 million, respectively, under the two reviews. Furthermore, we request, for the sixth program review, the modification of performance criteria and indicative targets as well as the modification and approval of new structural benchmarks, particularly changes to the ceiling on net domestic financing (performance criterion) and to the floors on domestic revenues and social spending (indicative target).

Under the new policy on debt limits in Fund-supported programs, which took effect in June 2015, we also request approval of a new non-concessional borrowing ceiling.

The government believes that the policies set forth in the attached MEFP are adequate to achieve the economic and social objectives of its program, but it will take any further measures that may become appropriate for this purpose. The government will consult with the IMF on the adoption of these measures in advance of revisions to the policies contained in the MEFP, in accordance with applicable IMF policies on such consultations.

The government will provide the IMF with all information on implementation of the agreed measures and program execution, as provided in the attached revised Technical Memorandum of Understanding or at the request of the IMF.

As in the past, the government agrees to publication of this letter, the attachments hereto, and the related IMF staff report upon approval by the IMF Executive Board.

Sincerely yours,

/s/
Hadizatou Rosine Coulibaly/Sori

Attachments: Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies for 2016

INTRODUCTION

1. This Memorandum of Economic and Financial Policies (MEFP) provides updated data on the implementation of the program for the 2014–2016 period supported by the International Monetary Fund (IMF) under the Extended Credit Facility (ECF). This economic and financial program aims to preserve economic stability and strengthen the basis for sustained and inclusive growth, in line with the objectives of the National Economic and Social Development Plan (*Plan National de Développement Économique et Social* – PNDES) currently being developed. This Memorandum describes recent economic developments and takes stock of the quantitative criteria and structural benchmarks at end-June and end-December 2015, in addition to laying down key directions for the remainder of 2016.

RECENT ECONOMIC DEVELOPMENTS AND PROGRAM IMPLEMENTATION

A. Recent macroeconomic developments

2. Economic activity in 2015 maintained the same pace as in 2014. In 2014, the country's economy had been hit by various shocks: unfavorable rainfall, falling gold and cotton prices, the impact of the Ebola crisis in the region, and a stronger U.S. dollar relative to the CFA franc. This situation was compounded by a wait-and-see attitude toward the historic political transition on the part of key private players, an attitude further fueled by the failed coup in September 2015. Although gold and cotton prices stopped falling in 2015, and even saw their value in CFA francs rise slightly owing to a strong appreciation of the U.S. dollar, this was not enough to accelerate growth, which remains far below its ten-year average at 4 percent for the second consecutive year.

3. The key indicators for 2015 reflect this generally subdued macroeconomic situation:

- Real GDP growth was expected to reach 4 percent in 2015, slightly more than population growth (3 percent). After rebounding in the first quarter of 2015 (an almost mechanical rebound following a very unsettled last quarter of 2014), economic activity slowed again in the second and third quarters of 2015, before rallying in the last quarter. The services and manufacturing sectors suffered from the economic standstill, which lasted close to three weeks as a result of the aborted September coup. A difficult crop year was also a contributing factor (6.3 percent decline in cereal production and 11.0 percent drop in cash crops).

- Private sector credit growth reflects this sluggish climate: credit to the economy rose by 7 percent after increases of between 20 and 25 percent in recent years. Net foreign assets were up by 72.9 percent at end-December 2015. In line with these developments, broad money expanded by 19.9 percent as at December 31, 2015.

- Annual inflation remained very moderate (0.9 percent) at end-2015, due mainly to higher prices of foodstuffs and non-alcoholic drinks (+5.4 percent), and housing services and fuel (+3.5 percent). Inflation was mitigated by lower prices for transport services (-4.2 percent) and for alcohol, tobacco, and narcotics (-1.5 percent).
- The external current account improved significantly in 2015, with a deficit of 6.4 percent of GDP compared to 11 percent two years earlier. Exports increased by 3.1 percent, and a stronger U.S. dollar helped offset the decline in international gold and cotton prices. Imports, meanwhile, grew by 2 percent despite a drop in the oil bill.

4. Looking at public finances, the overall deficit (commitment basis) improved between 2013 and 2015, dropping from 3.5 percent in 2013 to 1.8 percent in 2014, to settle at 2.1 percent of GDP in 2015:

- Total revenues (excluding grants) decreased in real terms in 2015. Total tax and non-tax revenues were 16.1 percent of GDP at end-2015 compared to 17.3 percent in 2014, after reaching 18.5 percent of GDP in 2013. This decrease is attributable to a contraction in VAT of 0.4 percent of GDP, decreasing port duties of 0.3 percent of GDP, and declining taxes on corporations of 0.5 percent of GDP over the period. Higher tax non-compliance and fraud were also contributing factors.

- Current expenditure continued to increase, edging up from 13.6 percent in 2013 to 14 percent in 2014, to then settle at 14.2 percent of GDP in 2015, particularly as a result of a growing wage bill, going from 5.9 percent of GDP in 2013, to 6.7 percent of GDP in 2014, and to 7.3 percent of GDP in 2015. With the reform of the compensation system in 2014, the government had to make considerable effort to restore some social justice to the compensation allocation system. These efforts led to a higher wage bill in the 2014 budget of roughly CFAF 54.7 billion, including CFAF 39.3 billion for staff in social sectors.

- In this context of lower revenue and higher current expenditure, the contraction of the deficit stems primarily from a very substantial decrease in public investment, the level of which relative to GDP was divided in half, dropping from 9 percent in 2014 to 7.7 percent in 2015, after having reached 14.2 percent of GDP in 2013. This drop is due to both a decrease in investment financed by donors (4.4 percent of GDP in 2013, 3.5 percent in 2014, and 2.3 percent in 2015) as well as to decline in domestically financed investment (9.8 percent of GDP in 2013, 5.5 percent in 2014, and 5.4 percent in 2015).

B. Program Implementation

5. Program implementation remains satisfactory, despite a difficult environment in 2015. Most criteria and quantitative benchmarks were achieved at end-June and end-December 2015 (Table 1).

- All quantitative performance criteria, namely the ceiling on net domestic financing, non-concessional external borrowing, and non-accumulation of external arrears, were met. Net domestic financing for end-June was 1.69 percent of GDP, rising to 2.27 percent of GDP at end-December. Non-concessional loans totaled CFAF 121.2 billion at end-June and CFAF 159.9 billion at end-December 2015. Lastly, the government did not accumulate external payment arrears.

- With respect to indicative targets, the government deficit remained below the ceiling fixed at end-June of 1.2 percent of GDP, rising to 2.1 percent of GDP at end-December, owing mainly to a decrease in current transfers and public investment. All the other indicative targets at end-June and end-December were met, except for the government revenue floor. Revenue was below the ceiling by approximately 0.5 percent of GDP at end-June 2015 and 1.4 percent of GDP at end-December.

6. In terms of structural benchmarks, 7 out of the 11 planned in 2015 were completed (Table 2).

- They included (i) increasing the revenue base through an exhaustive survey of medium-sized enterprises for proper monitoring and efficient control of the new segmentation of enterprises, (ii) adopting legislation to make it compulsory to state the identity and identification number of incoming and outgoing officials on appointment documents to allow for automatic updating of their salary status, (iii) implementing an operations of cash payment of all government employee wages to monitor staffing and streamline remuneration components, (iv) signing a performance contract (*contrat-plan*) between the government and SONABEL to increase the latter's efficiency and put it on a stable footing for medium-term development, (v)preparing quarterly reports on pending payments, (vi) signing a performance contract between the government and SONABHY to increase the latter's efficiency and put it on a stable footing for medium-term development, and

(vii) adopt an action plan to implement the recommendations contained in the SONABHY audit report.

- As for the four other benchmarks not achieved in 2015, two were implemented with a delay and implementation of the remaining two is underway. With respect to installing and operating scanners to improve and expedite customs inspections, all scanners are now operational (aside from two cargo scanners at the airport, which are undergoing repairs). The Virtual Liaison System for Import and Export Operations (*Système de liaison virtuelle pour les opérations d'importation et d'exportation* – SYLVIE) became operational in February 2016. As for the effectiveness of the standardized invoicing used by large enterprises, the delay in its implementation is due to a change in the procedure for recruiting the technical operator. This procedure was changed from limited tender to open tender. Lastly, with respect to the benchmark on "leakages" during hydrocarbon transport, following discussions between SONABHY and transport workers' unions an alternative technical solution has been adopted and will be implemented as part of the 6th ECF review benchmarks.

- Five additional benchmarks were planned for 2016 between January and March. They are: (i) Establish an Investigations and Intelligence Directorate (*Direction des enquêtes et de renseignement*) to increase controls (met); (ii) to adopt the standardized invoicing for medium-sized enterprises (not met, but planned for June 2016 together with standardized invoicing for large enterprises); (iii) to have the SONAPOST Board of Directors adopt the recommendations made in the feasibility study regarding the provision of decentralized services (not met, the study started in April); (iv) to finalize a study on the viability of options for energy production and import by SONABEL (not met, study ongoing); and (v) to finalize an annual audit on pending payments and arrears, initially planned for March 2016 and expected in May.

IMPLEMENTATION OF THE STRATEGY FOR ACCELERATED GROWTH AND SUSTAINABLE DEVELOPMENT (SCADD) AND OUTLOOK FOR THE NATIONAL ECONOMIC AND SOCIAL DEVELOPMENT PLAN (PNDES)

7. The implementation of the growth pole approach resulted in the continued construction of the Bagré growth pole and preparation of the Sahel growth pole and the Bobo-Dioulasso oil mill cluster. The National Economic and Social Development Plan (*Plan National de Développement Économique et Social* – PNDES) intends to consolidate the gains from these growth poles and put in place new ones (Sourou, Samendeni, Est, etc.).

8. The continued implementation of measures and actions from the performance matrix of the Strategy for Accelerated Growth and Sustainable Development (*Stratégie de croissance accélérée et de développement durable* – SCADD) in the fourth quarter of 2015 highlights the following actions, as far as the development of the pillars for accelerated growth (Pillar 1): (i) conducting environmental safeguards studies and continuing to perform the necessary work to build the Sahel growth pole; (ii) developing the agricultural sector by providing agricultural producers with equipment, such as plows and carts, distributing improved seeds and fertilizers at subsidized prices, and disseminating improved animal breeds; (iii) strengthening the nutritional and food security mechanism; (iv) adopting a new mining code to provide guidance to the mining sector, and foster and encourage secure mineral resource prospecting, exploration, and operation for the social and economic development of Burkina Faso; (v) establishing tourism development funds to bring technical and/or financial support to development initiatives within the tourism sector; (vi) continuing to take the necessary action to create the industrialization fund; (vii) continuing to implement the actions needed to establish multiannual contracts for routine maintenance of the road network; and (viii) interconnecting enterprise registration centers (*Centres de formalités des entreprises* – CEFORE), building permit facilitation centers (*Centres de facilitation des actes de construire* – CEFAC), and one-stop shops for land transactions (*Guichets uniques du foncier* – GUF) with partner administrations by creating a network that comprises all business development entities in order to simplify procedures.

9. With respect to consolidating human capital and promoting social protection (Pillar 2), key accomplishments focused on: (i) continued implementation of the special job creation program for

young people and women through technical and financial support for 3,000 youth to help them create micro-enterprises and through recruitment of young people for high labor intensity public works; (ii) the operationalization of the joint monitoring mechanism between the Ministry of National Education and Literacy (*Ministère de l'Éducation Nationale et de l'Alphabétisation* – MENA) and communes, for all powers transferred to the communes; (iii) actions to operationalize universal health insurance (*Assurance maladie universelle* – AMU) and the development of social mutual funds (*mutuelles sociales*); (iv) school and university infrastructure; and (v) actions to implement the National Social Protection Policy (*Politique nationale de la protection sociale* – PNPS).

10. With respect to strengthening governance (Pillar 3), considered in relation to its economic, political, administrative, and local aspects, the major reforms were: (i) to continue the necessary work for implementation of the program budget within ministries and institutions, and to introduce the standardized invoicing; (ii) to carry out the ongoing multisectoral survey on household living conditions (poverty component); (iii) to start reviewing the law establishing the judicial system with a view to improving the quality of the public service of justice; (iv) to adopt the law regarding the prevention and suppression of corruption in Burkina Faso; and (v) to start assessing the Strategic Framework for Decentralization (*Cadre stratégique de mise en œuvre de la decentralisation*).

11. As for including cross-sectoral issues in development policies and programs (Pillar 4), the actions aimed at ensuring its effectiveness involved: (i) strengthening the financing mechanism to support women entrepreneurs; and (ii) taking stock of the water resources managed by the Nakanbé Water Agency.

12. In January 2016, the government decided to develop a 2016-2020 National Economic and Social Development Plan (PNDES), which it plans to adopt by May 2016 as a replacement for the SCADD. The PNDES will thus become the reference framework for interventions by various national and international partners, an instrument for political dialogue with technical and financial partners (TFPs), and a medium for mobilizing resources to finance development. The 2016-2020 PNDES will have to bring together all sectoral policies and factor in Burkina Faso’s international commitments. At the decentralized level, regional and communal development plans will be aligned with the PNDES. The National Plan will draw on lessons learned from the SCADD and will seek to realize the “Burkina 2025” vision for the 2016–2020 period, while integrating the various changes made in

recent years to the development agenda on the international, regional, sub-regional, and national levels.

ECONOMIC AND FINANCIAL PROGRAM FOR 2016

A. Macroeconomic framework

13. Growth forecasts for 2016 and 2017 were downgraded as a result of the continuing effects of certain shocks (terrorist attacks in January, low commodity prices, etc.). Projected growth has been revised to 5.2 percent in 2016, compared to the 6 percent foreseen during the second and third ECF program reviews. The upturn in activity compared to 2015 is supported by the manufacturing sector and services that should regain momentum following a successful political transition, as well as the opening of two new gold mines. However, this rebound is attenuated by the impact that the recent terrorist attacks will have on the business climate and falling commodity prices. Inflation is expected to remain moderate (following changes in import prices) and below the WAEMU criterion of 3 percent. The growth outlook for 2017, estimated to be 5.9 percent, is slightly more favorable than in 2016; growth will be driven by a dynamic agro-pastoral sector, supported by the continued operationalization of growth poles (Bagré, Samendeni, Sourou) and actions to develop hydroagricultural and water management infrastructure with the full-year implementation of public investment projects under the PNDES. In addition, mining operations and the services sector (telecommunications, financial services, and transport) are expected to remain firm. In the medium term, growth is expected to be around 6–6.5 percent, strengthened by a gradual improvement in energy supply following the extensive efforts of authorities and donors in this regard to support business productivity, dynamism in the mining extraction sector with the gradual start of the Tambao manganese project, and the opening of new gold mines as well as enhanced investments in productive sectors to make more opportunities available to the population.

14. Transactions with the rest of the world should translate into an improvement in the external current account in 2016. Imports are expected to be up 1.6 percent owing to higher investment spending, particularly public investments. This increase is expected to be offset by a 7.1 percent rise in exports.

B. Fiscal Policy

15. The new government, which took power in January 2016, intends to continue with a prudent fiscal policy, in line with the WAEMU convergence criteria and public debt sustainability. In this

regard, a draft supplementary budget law (*Loi de Finances Rectificative* – LFR) was adopted by the Council of Ministers during its session on March 21, 2016, and submitted to the National Assembly on March 23. This draft law provides for urgent measures to revive economic activity from its 2014 and 2015 levels, and takes into account the following imperatives:

- new configuration of the government;
- concerns regarding the implementation of priority government actions, particularly consideration of security issues and emergency measures in the health, education, water, and youth employment sectors;
- commitments vis-à-vis social partners, which were made by the transition government but which had not been budgeted; and
- financial government commitments vis-à-vis the cotton sector, for which no budget appropriation was earmarked.

16. The 2016 LFR amends the 2016 initial budget law (*Loi de Finances Initiale* – LFI) adopted by the National Transition Committee (*Conseil National de la Transition* – CNT) on December 26, 2015. This initial budget was essentially technical, but in line with the growth outlook and ongoing reforms. To recap, the underlying assumptions in the 2016 LFI were as follows:

- End of uncertainty and the wait-and-see attitude in connection with the political transition, and the delayed implementation of measures agreed upon during the second and third program reviews (standardized VAT invoicing for large and medium-sized enterprises, customs scanners, satellite tracking and unified platform for export invoicing, increased stamp duty and tax on alcohol and tobacco as of January 1, 2016) are expected to generate about CFAF 24.7 billion in additional revenue over 2015.
- Budget support projections in the 2016 budget stand at 1.4 percent of GDP (grants and concessional loans), down sharply from the exceptionally high 2015 levels (3 percent of GDP) but in line with the commitments of technical and financial partners.
- The overall deficit is expected to reach 3.3 percent of GDP in 2016, and to remain anchored at 3 percent in the medium term, in accordance with the WAEMU convergence criterion.

17. On this basis, the 2016 LFR provides for further revenue measures to finance a number of additional expenditures. The LFR shares the same priorities as the LFI, namely to:

- develop accelerated growth pillars;
- consolidate human capital and promote social protection;
- strengthen good governance;
- consider cross-sectoral priorities in development policies and programs; and
- strengthen internal security and national defense.

18. Domestic revenues under the LFR total 17.6 percent of GDP and program grants, 0.9 percent of GDP. Expenditure amounts to CFAF 1750.8 billion, that is, 24.9 percent of GDP. A number of reforms and accompanying measures were identified as part of the 2016 government budget execution program. Additional revenue totaling CFAF 58.9 billion, compared to the LFI, is generated through the following measures (Table 3):

- broadening of the tax base by consolidating the new segmentation of enterprises and increased tax inspections;
- clearing the stock of unpaid balances;
- systematically cross-checking information, between the Directorate General of Taxation (*Direction générale des impôts* – DGI) and the Directorate General of Customs (*Direction générales des douanes* – DGD), contained in tax returns filed by taxpayers based on the unique taxpayer ID;
- activating field 44 for input of references from COTECNA inspection notices, the implementation of which took effect on March 1, 2016; and
- combatting the fraudulent import of motorcycles.

19. In order to contain fiscal risks, the government intends to monitor the mobilization of these additional revenues very closely. In return, it will identify non-priority spending covered by at-risk revenue.

20. In terms of expenditure, measures and reforms are planned to streamline the administration's current spending in order to find savings, which will then be allocated to investment, that is:

- reducing allocations for fuel to bring down consumption;
- limiting the number of vehicles for government officials;
- capping call credits for government officials and restricting new landline connections;
- reducing the number of government leases and state-funded housing for government officials (*villas de fonction*);
- streamlining tasks and their weight on public spending;
- creating a pool of vehicles for ministries in order to reduce the number of vehicles used by the heads of various departments; and
- reforming the service vehicle system and subsequently reducing the government's vehicle fleet.

21. With respect to containing the civil servant wage bill, the government intends to continue its staff monitoring efforts by continuing and enhancing the biometric enrolment of government officials in the Integrated Administrative and Payroll Management System for Civil Servants (*Système Intégré de Gestion Administrative et Salariale du Personnel de l'État* – SIGASPE). Moreover, action will be taken to automate clearance of the payroll file through regular monitoring of temporary and final outflows as well as through the obligation to state the identity and identification number of incoming and outgoing officials on appointment documents to allow for automatic updating of their salary status. Furthermore, measures to boost the system for redeploying personnel from areas with a high concentration of workers to underserved areas will also be taken in order to better control additional staff recruitment. As concerns the implementation of law 081 on the status of civil servants, the government undertakes to hold constructive exchanges with social partners with the aim of reaching an agreement on an implementation scheme that factors in the budgetary resources to be earmarked for its implementation.

22. Investments financed with domestic resources are expected to increase to CFAF 383.8 billion, in other words, 5.5 percent of GDP compared to 5.4 percent in 2015.

23. The total financing requirement in 2016 is estimated at 3 percent of GDP, of which 2.2 percent of GDP will come from net external financing and 0.9 percent of GDP from net domestic financing. This shows a financing gap of 0.3 percent of GDP.

- Domestic financing estimates are based on the amortization owed in 2016 and the budget financing needs, given the projected external financing (budget support). Our Treasury plan is fairly ambitious and currently includes the issuance of CFAF 180 billion in bonds and CFAF 303.5 billion in Treasury bills, but this plan will be revised downward once the budget envelope has been defined in order to ensure a reasonable, feasible amortization profile for 2017–18.
- The overall deficit arising from this LFR is CFAF 231.9 billion, or 3.3 percent of GDP.

C. Debt Policy

24. The government debt policy aims to keep the characteristic debt ratios (public debt relative to GDP, tax revenue, and exports) within "moderate" risk boundaries. Our project portfolio for 2016-18 includes priority investments in the energy, telecommunications, water, agricultural, and road infrastructure sectors.

25. The government plans to continue to diversify its borrowing sources and give preference to grants and concessional loans, in addition to increasing the non-concessional debt ceiling to CFAF 230 billion. These commitments at end-2015 total CFAF 159.9 billion, and new projects amounting to CFAF 63.7 billion will be added to this envelope in 2016. Furthermore, the government is contemplating CFAF 256 billion in new concessional borrowing for 2016 (Text Table 1).

Text Table 1. Concessional and non-concessional loans to be signed in 2016

Project	Donors	Sectors	Amount (CFAF billions)	Terms	Type
Project for construction and asphalting of national road between Guiba and Garango	IsDB	Road infrastructures	25.7	Interest rate: 2.5%; Reimb. period: 11 years; Grace period: 04 years	Non-concessional
Electrification of the periurban district of Ouaga and Bobo	AfDB-WB	Energy	38.0	Terms not yet defined.	Non-concessional
WESSA hydroelectric and hydro-agricultural dam	India	Hydro-agricultural development	110.4	Interest rate: 1.75%; Term 20 years; Grace period: 5 years	Concessional
Sahel irrigation project	IDA	Irrigation	18.0	IDA loan conditions	Concessional
Transportation sector technical assistance	IDA	Technical support	12.0	IDA loan conditions	Concessional
Livestock project	IDA	Livestock	18.0	IDA loan conditions	Concessional
Urban sector modernization project	IDA	Urbanization	60.0	IDA loan conditions	Concessional
Integrated Rural Development Project (Sanguié-Mouhoun)	WB-Gates Foundation	Rural Development	26.0	Blend (grant from Gates Foundation)	Concessional
University dormitories (2,500 beds) - Koudougou	Kuwait Fund	Education infrastructure	12.0	Interest-free loan	Concessional

Sources: Directions of Public Debt and of Cooperation, Ministry of Economics, Finance and Development.

26. With respect to Treasury bill and bond issuances, the government took advantage of the favorable conditions in the regional financial market and began to extend the maturities of its issuances from 3–6 months to 1–2 years. At the same time, it recognizes the importance of enhancing the planning and monitoring of these operations in order to control the repayment schedule and the refinancing needs associated with these operations. To contribute to these efforts and to improve overall external and domestic debt management, it will be necessary to build the capacities of the stakeholders involved in the public debt process and update management and analysis tools.

D. Other Structural Reforms

Public Finance Reforms

27. To monitor the pending payment situation closely, quarterly reports have been published under the Fund-supported program. Arrears were gradually paid off in 2015, totaling just CFAF 4 billion at end-December. So as to move further in this direction, the government intends to conduct a complete audit of non-Treasury-related government arrears by end-April 2016. Meanwhile, it will continue the efforts undertaken to improve cash management and planning in

order to avoid periods of tight liquidity and to minimize the risk of new pending payment accumulations.

28. The government will continue efforts to repatriate Treasury assets in the postal checking center (*Centre des chèques postaux* – CCP). To recap, out of a balance of CFAF 169.8 billion at end-2014, it had been agreed that CFAF 75 billion of Public Treasury assets at the CCP would be made available to the Treasury in December and during 2015.

To date, the following actions have been taken:

- suspension of coverage on CCP clearing operations by the Public Treasury;
- repatriation of assets in the amount of CFAF 62.5 billion;
- completion of an audit of SONAPOST requested by the Minister responsible for Finance and conducted by BCEAO headquarters in January–February 2016 to assess SONAPOST's capacity to return the Treasury assets at the CCP. The audit report is expected to be completed by April 2016 in order to plan the process for the rest of the Treasury assets' repayment.

Energy Sector Reforms

29. One of our government's main priorities is to quickly increase electricity production to avoid blackouts and outages during the hot season and to support growth in the coming years. To this end, we are planning a number of reforms to enable SONABEL to effectively manage new investments in the sector, particularly to (i) put SONABEL on a sounder financial footing, (ii) clarify and simplify the structure of financial relationships between the government, SONABHY, and SONABEL, and (iii) improve the readability of financial operations performed by SONABHY and SONABEL. In the short term, it is important that the profits resulting from the significant decrease in oil prices since 2014 be clearly identified and benefit the energy sector in a broader sense, in particular as concerns SONABEL.

30. The government intends to implement the key findings from the recent audits of SONABEL and SONABHY. To recap, following these audits, the two companies signed performance contracts with the government. However, because of the political events in recent months, notable progress has yet to be made.

31. As for SONABHY and 2016, the audit recommendations to be implemented are contained in the "action plan for the implementation of recommendations arising from the audit on the supply

chain, operating expenses, and subsidies at SONABHY”. The Audit and Quality Directorate (*Direction de l’Audit et de la Qualité*) acts as the internal monitoring committee. An external committee will be created and tasked with tracking the fulfilment of the contracting parties’ obligations and evaluating the performance contract. It will consist of government and SONABHY representatives. Government representatives will comprise officials from the Ministry of Trade, Industry, and Handicrafts (*Ministère du Commerce, de l’Industrie et de l’Artisanat*), the Ministry of Mines, Energy, and Quarries (*Ministère des Mines, de l’Énergie et des Carrières*), and the Ministry of Economy, Finance, and Development (*Ministère de l’Économie, des Finances et du Développement*). SONABHY representatives will comprise the Chair of the Board of Directors, the Director General, and the workers’ representative. The recommendations to be implemented in 2016 will essentially consist of:

- producing an internal audit guide;
- developing a program to resolve issues with running the “JDE” integrated management software, in addition to PCA implementation;
- updating corporate accounting procedures to ensure smooth management of the accounting department;
- bringing quarterly account statements in line with the requirements of the Accounting Standards, in effect as of April 2016;
- analyzing accounts on a quarterly basis and comprehensively cleaning up corporate accounts before end-2016;
- introducing hydrocarbon cost price accounting to highlight actual shortfalls for engaging in financial negotiations regarding interventions on objective grounds before end-2016;
- establishing a long-term investment plan, incorporating additional financing of the working capital requirement, backed by a credible financing plan;
- optimizing spending through currency management by recruiting a specialist in market finance or building the capacities of staff in charge of financial services;
- transferring the recovery of doubtful loans to a lawyer and taking legal action against customers in cases where recovery is not successful; and

- eliminating all-taxes-included sales by having customers bear customs duties themselves or make cash pre-payments that are likely to cover payment of customs duties when products are released in order to improve cashflow and minimize financial costs.

32. As concerns SONABEL, the recommendations on risk mapping will be implemented in June 2016. As part of the implementation of recommendations on financial and accounting practices, a management software is being acquired with support from the World Bank. Calls for tenders will be launched by September 2016. Cost accounting will be effective as of December 2016. The process to recruit a consultant is underway. The performance contract monitoring committee will be put in place in June 2016. Government representatives will comprise the First Ministry (*Premier Ministère*), the Ministry of Trade, Industry, and Handicrafts, the Ministry of Mines, Energy, and Quarries, and the Ministry of Economy, Finance, and Development. SONABEL representatives will comprise the Chair of the Board of Directors, the Director General, and the workers' representative.

33. The government intends to clarify the mechanism for reallocating the surplus arising from the widespread decline in world oil and hydrocarbon prices to the rest of the economy. If hydrocarbon prices remain in their recent range, this surplus is believed to reduce the bill for petroleum product imports by about CFAF 95 billion (1.4 percent of GDP) in 2016. A portion of this surplus will be passed on to consumers in the form of lower prices at the pump, already effective since end-2015, while the remaining surplus will be used to strengthen SONABEL's financial position. In particular, this will involve clearing some of the arrears that SONABEL owes to SONABHY (totaling CFAF 66.6 billion at end-2015) by way of payment of a special dividend from SONABHY to the government on the capital gain realized in 2015-16 in order to support investment in electricity production (new benchmark). The total dividend will amount to CFAF 40 billion, of which CFAF 5 billion resulting from 2015 SONABHY profits and the remainder from profits realized by SONABHY in 2016.

34. To prevent new arrears accumulation linked with the rigid fuel purchase price by SONABEL from SONABHY, the government also undertakes t adopt the implementation of automatic price adjustments based on oil price fluctuations in international markets. This mechanism will be set forth in the technical memorandum between the government, SONABEL, and SONABHY, to be signed in May 2016. This agreement will clarify all the financial relationships between the government,

SONABHY, and SONABEL, and will ensure the financial sustainability of SONABHY and SONABEL by avoiding the parallel renewal of an accumulation of government subsidies and arrears. In the medium term, tiered electricity pricing driven by activity sector and social groups should be adopted so that the subsidy benefits only the most disadvantaged and only certain industries.

35. Maintaining the financial sustainability of the energy sector also involves greater transparency in the evolution of the financial position of SONABHY and SONABEL. Complete audited financial statements for 2015 will make it possible to assess the current situation, and SONABHY and SONABEL will provide summaries of their financial statements and cash positions on a quarterly basis starting in June 2016 (new benchmark, Table 3 and TMU).

Cotton Sector Reforms

36. The government wishes to restore the viability of the cotton stabilization fund. After eight years of existence and effective operation, the cotton sector price smoothing fund (*fonds de lissage*) has been without resources since the end of the 2014–2015 crop year. An audit identified various failures that unintentionally converted the smoothing fund mechanism into a procyclical mechanism. Some recommendations were implemented, namely: (i) the need to supplement the fund, which had a balance of CFAF 4.5 billion and which was supposed to be empty following a drawing right in the amount of CFAF 11 billion for cotton companies for the 2014–2015 crop year. That year was characterized by a fall in world cotton prices, such that a floor price for cotton seed for the crop year was fixed based on 95 percent of the trend instead of 92 percent in the event of a negative balance in the fund. A subsidy amounting to CFAF 6.5 billion from the government in mid-2015 is allowing the fund to remain operational until mid-2016. The government also allocated CFAF 20 billion to the cotton sector in the 2016 LFR. This amount will be used to repay the subsidy and other advances to cotton producers. As regards state support for the 2016-17 crop season, we commit to seek additional external financing and/or identify savings on other expenditures, inasmuch as possible, given the already-tight budget situation. Nevertheless, sustainable resources must still be identified for future crop years to enhance the fund’s capacity to address situations involving drastic falls in cotton prices over the long term. In addition, other recommendations should be implemented, including a revision of programming and regulation of the smoothing mechanism in order to make it more effective in dealing with cyclical cotton price fluctuations.

Reforms to Improve Macroeconomic Monitoring

37. The government supports the update of the base year for the national accounts. The national informal sector and employment survey (*Enquête nationale sur l'emploi et le secteur informel* – ENESI) was delayed in 2015 as a result of the 2014 popular uprising. Data were collected at end-2015 and entered fully on March 29, 2016. Data cleaning work has begun and will continue until the end of May 2016. The new base year will be 2014. The major steps remaining are to process the ENESI data and conduct specific studies, including the survey on the informal sector and gold panning, prepare 2014 accounts according to SNA 1993 on the one hand and SNA 2008 on the other, and perform backward extrapolation in respect of the national accounts series.

PROGRAM MODALITIES

38. The government intends to take all the necessary measures to achieve the objectives and criteria, as presented in Tables 1 and 3 of this Memorandum of Understanding. The program will be examined in keeping with the TMU, which defines the quantitative performance criteria and requirements regarding data reporting to Fund staff. The sixth program review is expected to take place on or after December 1, 2016.

Table 1. Burkina Faso: Quantitative Performance Criteria and Indicative Targets for ECF Arrangement, March 2015–June 2016

(CFAF billions, cumulative from beginning of year; unless otherwise indicated)

	2015																2016	
	March				June				Sept.[6]				Dec.				Mar.[6]	Jun.
	Proj.	Adj. Prog.	Act.		Proj.	Adj. Prog.	Act.		Proj.	Adj. Prog.	Act.		Proj.	Adj. Prog.	Act.[7]		Prog.	Prog.
Quantitative Performance Criteria																		
Ceiling on net domestic financing of central government[1]	55.0	55.0	46.1	Met	97.3	152.9	110.0	Met	150.7	164.8	114.6	Met	149.2	152.1	147.5	Met	56.3	111.0
Ceiling on the amount of new nonconcessional external debt contracted or guaranteed by government [2, 3]	150.0	150.0	n.a.	n.a	200	200	121.2	n.a.	200	200	n.a.	n.a	200	200	159.9	Met	200	230
Accumulation of external arrears [2]	0.0	0.0	0.0	Met	0.0	0.0	0.0	Met	0.0	0.0	0.0	Met	0.0	0.0	0.0	Met	0	0.0
Indicative targets																		
Ceiling on domestic financing outside central government[4]	n.a	n.a	n.a	n.a	14	14	-36	Met	22	22	-48	Met	29	29	-60.8	Met	15	22
Ceiling on the overall fiscal deficit including grants	79.4	88.4	-8.9	Met	110.7	123.7	79.9	Met	179.5	155.3	54.0	Met	163.7	171.5	133.9	Met	82.4	164.8
Floor on Government revenue	276.8	276.8	246.9	Not Met	556	556	521	Not Met	800	800	773	Not Met	1137	1137	1048	Not Met	268	565
Floor on Poverty-reducing social expenditures[5]	117.5	117.5	176.0	Met	218	218	240	Met	327	327	327	Met	436	436	437	Met	118	199
Memorandum Item																		
Ceiling on the amount of new concessional external debt contracted or guaranteed by government [2, 3]	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	256.4

Sources: Burkinabè authorities; and IMF staff estimates and projections.

[1] Defined in the TMU on a PNG basis prior to June 2015, and including on-lending of prospective IMF disbursements.

[2] To be observed continuously.

[3] The limit is not tied to specific projects.

[4] From June 2015 onwards, as defined in the TMU.

[5] 90 percent of budget amount.

[6] Indicative Target, except for continuous performance criteria.

[7] Based on preliminary data

Table 2. Burkina Faso: Structural Benchmarks for Fourth and Fifth Reviews Under the ECF

Measure	**Explanation**	**Completion date** (end of month)	**Status/Comments**
Sign a performance contract between the government and SONABEL to increase its efficiency and put it on a stable footing for medium-term development. **(SONABEL)**	Strengthen control of the government's contingent liabilities and ensure the viability of public enterprises	June 2015	**Met.** The contract between the government and SONABEL was signed for 2015-2019, even though implementation is slow. The monitoring committees are in place and will produce infra-annual evaluation reports.
Complete an exhaustive survey of medium-sized enterprises for proper monitoring and efficient control of the new segmentation of enterprises. **(DGI)**	Optimize revenue collection by increasing revenue base	June 2015	**Met.** The survey was carried out in June 2015 and led to the deactivation of 655 taxpayers from medium-sized enterprises.
Draft regulations ensuring that invoicing for fuel leakages during transport is based on delivery prices instead of import prices to penalize losses above the specified norms during the transport of petroleum products from the ports to SONABHY in order to reduce fraud. (**SONABHY)**	Lower the operating costs of public enterprises by reducing fraud	June 2015	**Not met.** Not met because of resistance from transport carriers.
Publish a quarterly report on pending payments to avoid the accumulation of arrears. **(DGTCP, DGB, DGD)**	Improve cashflow management and budget execution	Every quarter as of June 2015	**Met.** The three 2015 reports were produced.
Implement regulations requiring large enterprises to use the standardized invoice by end-July 2015 and medium-sized enterprises by end-January 2016, to improve the traceability of transactions performed by taxpayers as concerns VAT. **(DGI)**	Improve tax revenue	July 2015 (large enterprises) January 2016 (medium-sized enterprises	**Not met**. Two benchmarks, initially slated for end-July 2015 (large enterprises) and end-January 2016 (medium-sized enterprises). **Rescheduled for June 2016 (Table 3).**
Adopt an action plan for implementing recommendations contained in the SONABHY audit report. **(SONABHY)**	Improve the efficiency of public enterprises	August 2015	**Met.** The action plan was adopted and forwarded to the IMF. The monitoring committee will produce its quarterly evaluation report at end-March 2016.
Adopt regulations making it compulsory to state the identity and identification number on appointment documents to facilitate automatic updating of the salary status of incoming and outgoing officials. **(DGB)**	Safeguard the sustainability of the government wage bill	August 2015	**Met.** A circular from the Prime Minister was signed and forwarded to each ministerial department and to institutions.
Install and operate scanners with a view to improving and expediting customs controls. (**DGD)**	Improve tax revenue	Sept. 2015	**Not met; implemented with a delay.** All scanners are operational, including that of the Ouaga route, as of March 2016.
Implement ad-hoc cash operations for payment of all government employee wages to monitor staffing and streamline remuneration components. **(DGB)**	Safeguard the sustainability of the government wage bill	Sept. 2015	**Met.** The report on these operations was completed in May 2015 and submitted to the IMF. The final report is awaiting official approval.

Table 2. Burkina Faso: Structural Benchmarks for Fourth and Fifth Reviews Under the ECF (continued)

Sign a performance contract between the government and SONABHY to increase the latter's efficiency and put it on a stable footing for medium-term development. **(SONABHY)**	Strengthen control of the government's contingent liabilities and ensure the viability of public enterprises	Sept. 2015	**Met.** The contract between the government and SONABHY was signed on June 19, 2015.
Begin operation of the Virtual Liaison System for Import and Export Operations (SYLVIE) to ensure transparent, reliable, and rapid production and delivery of the documents required for customs clearance operations. **(DGD)**	Improve the efficiency of the customs system and combat fraud	Dec. 2015	**Not Met, implemented with a delay**. The platform was launched on February 16, 2016.
Establish an Investigations and Intelligence Directorate. **(DGI)**	Improve tax revenue by increasing the number of tax audits	March 2016	**Met.** The Directorate was created and the Director appointed.
Have the SONAPOST Board of Directors adopt the recommendations of the feasibility study on the provision of decentralized financial services. **(SONAPOST)**	Improve access to decentralized financial services	Jan. 2016	**Not met, implementation underway.** The consultant was recruited and the study began on April 5, 2016.
Finalize a study on the viability of production and import options to take account of changes in the energy sector at both the national and sub-regional level. **(SONABEL)**	Improve the reliability and efficiency of electricity supply	March 2016	**Not met, implementation underway.** Phase 1 of the project has been underway since November 2015, but the security situation in Belgium has delayed the next phase. As for the training component, the first wave on forecasting demand and on legal aspects was initiated and ended on March 5, 2016. The second wave of training covers the optimization and reliability of supply, and familiarization with the scanner software used in the study began on March 14, 2016.
Conduct an annual audit of pending payments and arrears. **(ASCE)**	Improve cashflow management and budget execution	March 2016	**Not met, implementation underway.** Will be implemented by May 2016.

Table 3. Burkina Faso: New Structural Benchmarks for Sixth Review Under the ECF

Measure	**Explanation**	**Completion date** (end of month)	**Comments**
The Investigations and Intelligence Directorate will produce quarterly reports on its activities. **(DGI)**	Improve tax revenue by increasing the number and quality of tax audits	Quarterly reports as of June 2016	**New benchmark.**
Consolidate enterprise segmentation by, in particular, implementing the new DGI structures allowing to control the tax base in the central part of the country.. **(DGI)**	Optimize tax revenue by broadening the tax base	June 2016	**New benchmark**
Implement regulations requiring large and medium-sized enterprises to use the standardized invoice by end-June 2016 to improve the traceability of transactions performed by taxpayers as concerns VAT. **(DGI)**	Improve tax revenue	June 2016	Two benchmarks, initially slated for July 2015 (large enterprises) and January 2016 (medium-sized enterprises), respectively. **Rescheduled for June 2016.**
Monitor taxpayers between DGI and DGD by using the tax identification number, starting with large taxpayers, and produce quarterly reports on the results and actions taken. **(DGI, DGD)**	Improve tax revenue from tax information cross-checking	Quarterly reports as of June 2016	**New benchmark.**
Provide monthly customs revenue forecasts by customs post on an annualized basis and a report on accomplishments vis-à-vis forecasts on a monthly basis. **(DGD)**	Improve monitoring of the impact of scanner installation, tracking system, SYLVIE operationalization	June 2016	**New benchmark.** Data are transmitted monthly on an ongoing basis.
Keep 'Field 44' enabled for input of references from inspection notices for all customs declarations. **(DGD)**	Improve customs revenue	June 2016	**New benchmark.**
Submit the domestic debt audit report for adoption of recommendations by the Council of Ministers. **(DGTCP)**	Improve cashflow management and budget execution	June 2016	**New benchmark.**
Install a sealed valve and tagging system for tanker trucks transporting hydrocarbons **(DGD)** and, at the same time, bolt down domed manholes on tanker trucks. **(SONABHY)**	Control hydrocarbon losses during transport	November 2016	**New benchmark.**
Produce audited annual accounts for 2015 and quarterly financial reports summarizing the financial and cashflow position as at May 2016. **(SONABHY and SONABEL)**	Improve transparency and management of energy sector enterprises	June 2016	**New benchmark.** Improve the availability of regular financial statements from enterprises in the energy sector (SONABHY and SONABEL).
Transfer special dividend from SONABHY to the government to clear SONABEL arrears. First transfer of CFAF 5 billion due in July 2016.	Improve the financial sustainability of SONABEL	July 2016	**New benchmark.**

Attachment II. Technical Memorandum of Understanding

1. This Technical Memorandum of Understanding (TMU) defines the quantitative performance criteria, indicative targets, and structural benchmarks that will serve to assess performance under the program supported by the Extended Credit Facility (ECF) in 2016. It also sets the framework and deadlines for the submission of data to IMF staff for assessment of program implementation.

CONDITIONALITY

2. The quantitative performance criteria and indicative targets for end-June 2016 are provided in Table 1 of the MEFP. The structural benchmarks set forth in the program are presented in Tables 2 and 3 of the MEFP.

DEFINITIONS

3. **Government.** Unless otherwise indicated, the term "government" means the central administration of Burkina Faso and does not include local administrations, the central bank, or any other public or government-owned entity with autonomous legal status not included in the table detailing the financial operations of the state (TOFE).

4. **Definition of debt.** For the purposes of the relevant performance criteria, the definition of debt is set out in IMF Executive Board Decision No. 15688-(14/107), Point 8, as published on the IMF website.

5. **Debt guarantees.** For the purposes of the relevant performance criteria, a government debt guarantee means an explicit legal obligation to service a debt in the event of nonpayment by the borrower (through payment in cash or in kind).

6. **Debt concessionality.** For the purposes of the relevant performance criteria, a debt is considered concessional if it includes a grant element of at least 35 percent.[1] The present value (PV) of debt at the time it is contracted is calculated by discounting the borrower's future debt service payments on the debt.[2] The discount rates used is 5.0 percent.

7. **External debt.** For the purposes of the relevant performance criteria, external debt is defined as debt contracted or serviced in a currency other than the CFA franc. This definition also applies to debt among WAEMU countries. The relevant performance criteria apply to the external debt of the government, public enterprises that receive government transfers, and other public entities in which the government holds more than 50 percent of the capital, and any private debt for which the government has extended guarantees that constitute a contingent liability for the government.

QUANTITATIVE PERFORMANCE CRITERIA

[1] This IMF webpage provides a tool to compute the grant element in a large range of financial arrangements: http://www.imf.org/external/np/pdr/conc/calculator

[2] The calculation of the concessionality takes into account all aspects of the debt contract, including the date of payment, the grace period, the schedule, the commissions and management fees.

8. The revised quantitative performance criteria proposed for 2015 are as follows: (i) a ceiling on net domestic financing of the Treasury defined below in paragraph 9 and 10; (ii) a ceiling on the contracting or guarantee of nonconcessional external debt by the government, as defined in paragraphs 4 to 7, and (iii) a ceiling on the non-accumulation of payment arrears on external debt service.

A. Net Domestic Financing of the Treasury

9. For the purposes of the relevant performance criteria, net domestic financing is defined as the sum of (i) net bank credit to the Treasury, including net bank credit to the Treasury as defined below vis-à-vis the national banking institutions (claims associated with IMF disbursements are included); (ii) the stock of unredeemed Treasury bills and bonds held outside national commercial banks; (iii) privatization receipts and other Treasury claims and debts vis-à-vis national nonbank institutions. Net bank credit to the Treasury is the balance of the Treasury's claims and debts vis-à-vis national banking institutions. Treasury claims include the cash holdings of the Burkinabè Treasury, deposits with the central bank, deposits with commercial banks, and secured obligations, and Treasury deposits in postal checking accounts (CCP). Treasury debt to the banking system includes funding from the central bank (including statutory advances, consolidated advances, IMF financing, and refinancing of secured obligations), Treasury securities held by the central bank, and funding from commercial banks (including Treasury securities held by commercial banks). Net bank credit to the Treasury is calculated based on information provided by the Central Bank of West African States (BCEAO), whose figures are deemed valid for program purposes. The foregoing items are calculated based on the Treasury budget execution report presented each month in the Treasury flow-of-funds table prepared by the Ministry of Economy and Finance.

Adjustment

10. The cumulative ceiling on net domestic financing will be adjusted upward in the amount by which external program support to central government, excluding project grants and project loans, falls short of the amount projected, in the event the external program assistance is lower than programmed, up to a maximum of CFAF 65 billion. The shortfall will be calculated in reference to the projections in Table 1 below. The ceiling will not be adjusted downward in the event the external program assistance is higher than programmed.

Table 1. Projected External Program Assistance (Cumulative, CFAF Billions)

	End-March 2016	End-June 2016	
Grants and loans	0.0	37.7	

11. The Ministry of the Economy and Finance will forward data on net domestic financing to the IMF within six weeks after the end of each quarter.

B. Nonconcessional External Debt Contracted or Guaranteed by the Government

Performance criterion

12. The government undertakes not to contract or guarantee any nonconcessional external debt beyond the ceiling indicated in MEFP Table 1. This performance criterion applies to external debt as defined in paragraph 7 of this memorandum. It utilizes the concept of concessionality as defined in paragraph 6 of this memorandum. This performance criterion also applies to any private debt guaranteed by the government that constitutes a contingent government debt as defined in paragraphs 4 to 7 of this memorandum. In addition, this criterion applies to public enterprises that receive government transfers, local governments, and other public sector entities (including public administrative, professional, scientific and technical agencies) unless excluded in MEFP Table 1. However, this performance criterion will not apply to Treasury bills and bonds issued in CFA francs on the WAEMU regional market, to suppliers' normal short-term credits, or to IMF loans. This commitment is a performance criterion to be observed continuously. It is measured on a cumulative basis from the IMF Executive Board's approval of the ECF, and no adjustment factor will apply.

Reporting deadlines

13. Details on any loan (terms and creditors) contracted by the government must be reported within four weeks of the end of each month. The same requirement applies to guarantees extended by the government.

C. Non-accumulation of New External Payment Arrears

Performance criterion

14. External payment arrears are external payments due but unpaid. Under the program the government agrees not to accumulate external payment arrears on its debt, except arrears arising from obligations being renegotiated with external creditors, including bilateral non-Paris Club creditors. No accumulation of new external arrears by the government is a performance criterion, to be observed continuously.

Reporting deadlines

15. Data on outstanding balances, accumulation, and repayment of external arrears will be forwarded within six weeks after the end of each month.

OTHER QUANTITATIVE INDICATIVE TARGETS

16. The program also includes indicative targets for the ceiling on net domestic financing beyond the Treasury, the overall deficit (commitment basis, grants included) as defined in paragraph 18 below; total government revenue; poverty-reducing social expenditures.

A. Ceiling on Net Domestic Financing beyond the Treasury

For the purposes of the indicative target, net domestic financing beyond the Treasury is defined as the sum of (i) net bank credit to public bodies beyond the Treasury, including net bank credit to these bodies as defined below vis-à-vis the national banking institutions (claims associated with IMF disbursements are included); (ii) the stock of unredeemed bills and bonds held outside national commercial banks; (iii) privatization receipts and other claims and debts of public bodies beyond the Treasury vis-à-vis national nonbank institutions. Net bank credit to the public bodies beyond the Treasury is the balance of the claims and debts of the bodies concerned vis-à-vis national banking institutions. These include (i) deposits of public bodies (beyond the Treasury) at the BCEAO, (ii) deposits of public bodies (beyond the Treasury) at the commercial banks, (iii) commercial liabilities of public bodies beyond the Treasury, (iv) commercial bank liabilities of the postal savings bank (CCP), (v) remaining Treasury deposits in postal checking accounts (CCP), (vi) Treasury deposits at the CNE, (vii) other net liabilities of the State (secured obligations). Debt to the banking system includes funding from the central bank (including statutory advances, consolidated advances, IMF financing, and refinancing of secured obligations), government securities held by the central bank, and funding from commercial banks (including any government securities held by commercial banks). Net bank credit to public bodies beyond the Treasury is calculated based on information provided by the Central Bank of West African States (BCEAO), whose figures are deemed valid for program purposes.

B. Overall Deficit Including Grants

Definition

17. For the program, the overall deficit including grants is valued on a commitment basis. It is defined as the sum of the government's net foreign and domestic financing, measured from the financing side, plus a cash basis adjustment. Net foreign financing is the sum of new foreign borrowing less amortization. Government net domestic financing is defined in paragraphs 9 and 10 above. The cash basis adjustment is defined as the sum of: (i) the total change in unauthorized expenditure commitments, (ii) the change in pending bills, and (iii) the change in Treasury deposits.

Adjustment

18. The ceiling on the overall fiscal deficit, including grants, will be adjusted upward in the amount by which external program support, excluding grants and project loans, falls short of the projected amount, in the event the actual figures are lower than projected, up to a maximum of CFAF 65 billion. The shortfall will be calculated in reference to the projections in Table 2 below. The ceiling will not be adjusted downward in the event that actual external program assistance is higher than projected.

19. The ceiling on the overall fiscal deficit, including grants, will be adjusted downward in the amount equivalent to the difference between projected and actual project loans in the event the actual figures are lower than projected. The overall fiscal deficit, including grants, will be adjusted upward in the amount equivalent to the difference between projected and actual project loans in the event the actual figures are higher than projected. The difference in the amount will be calculated in reference to the projections in Table 2 below.

Table 2. Projected External Program Grants and Project Loans (Cumulative, CFAF billions)			
	End-March 2016	End-June 2016	
Grants Project loans	0.0 12.5	37.7 35.0	

C. Total Government Revenue

Definition

20. Total government revenue is valued on a cash basis. It includes all tax and nontax revenue collected by the Directorate General of Taxation, the Directorate General of Customs, the Burkinabè Treasury, and revenue collection units at ministries and institutions. It also includes revenue from treasury checks.

D. Poverty-Reducing Social Expenditures Definition

21. Poverty-reducing social expenditures are defined as the expenditures of sectors sponsoring the priority programs identified in the Strategy for Accelerated Growth and Sustainable Development (SCADD) to accelerate the achievement of poverty reduction objectives. Such expenditures cover all spending categories for the following ministries: Promotion of Women and Gender Issues; Health; Social Action and National Solidarity; National Education and Literacy; Agriculture and Food Security; Animal Resources; Environment and Sustainable Development; Youth, Professional Training and Employment including the labor and social security components of Civil Service, Labor, and Social Security; Water, Hydraulic Improvements, and Sanitation. They also cover rural roads and Heavily Indebted Poor Countries (HIPC) initiative (Category 5) for Infrastructure, Integration, and Transport; and HIPC expenditures only for Communication; Justice and Human Rights; Economy and Finance; and Mines, Quarries, and Energy. Added to this is the allocation under section 98 “transfers to subnational governments” from Health, Agriculture and Food Security as well as National Education and Literacy. These expenditures are monitored directly through the budget, and the indicative threshold for the program will be 90 percent of the amount established by the budget authority.

E. Non-accumulation of Domestic Payment Arrears

22. The government will not accumulate payment arrears on domestic obligations during the program period. This is a structural benchmark. Under the program, domestic payment arrears arise when actual payment is made more than 90 days after liability is incurred for an undisputed debt to a third party, except in cases where the terms and conditions of the transaction stipulate a longer period. In the case of debt service, arrears arise 30 days after the due date. Payments are deemed to be in arrears in keeping with the following definition:

- Debt unpaid for more than 30 days after the due date stipulated in the agreement between the parties (creditor/debtor).
- Wages or pensions unpaid 90 days after their due date.
- Payments for services rendered received more than 90 days after processing of the supporting documents submitted by suppliers.

Additional Information for Program Monitoring

23. To enable IMF staff to assess program performance, the government agrees to submit the following data to them in paper format and/or MSC Excel electronic files, with the frequencies and deadlines specified below.

Table 3. Summary of Data Reporting Requirements

Information	Institution Responsible	Data Frequency	Reporting Frequency
Public Finance The government flow-of-funds table (TOFE) and the customary appendix tables; (if data on actual investment financed by external grants and loans are not available in time, a linear estimate of execution based on the annual projections will be used)	Ministry of Economy, Finance and Development (MINEFID)	Monthly	6 weeks
Domestic budgetary financing (net bank credit to the government and stock of unredeemed treasury bonds and bills)	MINEFID/BCEAO	Monthly	6 weeks
A quarterly report on the consistency of the net position of the Treasury in monetary statistics with the data from the TOFE on net domestic financing of the banking sector.	MINEFID/BCEAO	Quarterly	8 weeks
Monthly data on the execution rates by the customs office relative to monthly forecasts.	MINEFID/DGD	Monthly	6 weeks
A quarterly report on the outcomes and actions undertaken to put in place a better control and supervision of taxpayers using the single taxpayer identification number to cross-check information between DGI and DGD, starting with large taxpayers.	MINEFID/DGD/DGI	Quarterly	6 weeks
Data on implementation of the public investment program, including details on financing sources	MINEFID	Quarterly	6 weeks
The stock of external debt, external debt service, external debt contracted, and external debt repayment	MINEFID	Quarterly	6 weeks
Social poverty-reducing expenditures in table format	MINEFID	Monthly	6 weeks
Petroleum product prices, consumption and taxes, including: (i) the price structure for the month concerned;; (ii) detailed calculation of the price structure, from the f.o.b-MED price to the retail price; (iii) volumes purchased and distributed for consumption by the petroleum distributor (SONABHY); with a distinction made between retail and industry sales; and (iv) a breakdown of tax revenue from petroleum products — customs duties, tax on petroleum products (TPP) and value-added tax (VAT) — and subsidies unpaid	MINEFID	Monthly	4 weeks

Table 3. Summary of Data Reporting Requirements (continued)

A quarterly report of monthly data of SONABHY's accounts including gains and/or losses from the buying and selling of hydrocarbon products by type of product, cash flows position and income statement, taking into account all received subsidies and Government securities issued or sold in the banking system or else.	SONABHY/MINEFID	Quarterly	6 weeks
A quarterly report of monthly data of SONABEL's accounts including its cash flows position and income statement, and taking into account all received subsidies and project grants and loans from the technical and financial partners.	SONABEL/MINEFID	Quarterly	6 weeks
A monthly statement of the accounts with the treasury, broken out by major category (administrative services, state enterprises, joint public-private enterprises, public administrative enterprises, international organizations, private depositors, and others)	MINEFID	Monthly	6 weeks
<u>The consolidated balance sheet of monetary institutions</u>			
The consolidated balance sheet of monetary institutions	NDs of the BCEAO	Monthly	6 weeks
The monetary survey: provisional data	BCEAO	Monthly	6 weeks
The monetary survey: final data	BCEAO	Monthly	10 weeks
The lending and borrowing interest rates	BCEAO	Monthly	6 weeks
The standard bank supervision indicators for banks and nonbank financial institutions	BCEAO	Monthly	6 weeks
<u>Balance of Payments</u>			
Preliminary annual balance of payments data	BCEAO	Annual	9 months
Foreign trade statistics	INSD/MINEFID	Monthly	3 months
Any revision of balance of payments data (including services, private transfers, official transfers, and capital transactions)	BCEAO	As they occur	2 weeks
<u>Real Sector</u>			
Provisional national accounts; and any revision of the national accounts	MINEFID	Annual	2 weeks

Table 3. Summary of Data Reporting Requirements (concluded)			
Disaggregated monthly consumer price indices	MINEFID	Monthly	2 weeks
Structural Reforms and Other Data			
Any study or official report on Burkina Faso's economy, on the date published, or the date of entry into force.	MINEFID		2 weeks
Any decision, order, law, decree, ordinance, or circular having economic or financial implications, on the date published, or the date of entry into force.	MINEFID		2 weeks